OPEN MEETING



MEMORANDUM

410

Arizona Corporation Commission

DOCKETED

TO:

THE COMMISSION

JAN 2 5 2008

FROM:

DATE:

Utilities Division

DOCKETED BY January 25, 2008

RE:

IN THE MATTER OF THE APPLICATION OF DUNCAN VALLEY ELECTRIC

COOPERATIVE, INC. **FOR** APPROVAL OF RENEWABLE **ENERGY**

STANDARD TARIFFS (DOCKET NO. E-01703A-07-0579)

Background

On July 30, 2007, the Arizona Corporation Commission ("Commission") issued Decision No. 69728 which approved the Arizona Electric Power Cooperative, Inc. ("AEPCO") Amended and Restated EPS/REST Plan ("Restated Plan"), filed on behalf of four of its Arizona member distribution cooperatives. The four distribution cooperatives are Duncan Valley Electric Cooperative, Inc. ("Duncan Valley"), Graham County Electric Cooperative, Inc. ("Graham County"). Mohave Electric Cooperative, Inc. ("Mohave"), and Trico Electric Cooperative, Inc. ("Trico"). On October 5, 2007, Duncan Valley filed its tariffs pursuant to Decision No. 69728 and the Renewable Energy Standard and Tariff ("REST") Rules.

Duncan Valley is submitting its tariffs associated with the Restated Plan. Duncan Valley is also submitting its proposed budget of \$39,353 for its portion of the Restated Plan approved in Decision No. 69728. Graham County, Mohave, and Trico have also submitted separate tariffs pursuant to Decision No. 69728 which include each Cooperative's individual budget for its portion of the Restated Plan.

Tariffs

Staff has reviewed Duncan Valley's proposed RES Tariff which Duncan Valley filed in compliance with Decision No. 69728, issued July 30, 2007. Duncan Valley's proposed RES Tariff sets forth the surcharge rates and monthly maximums to be collected to fund its annual budget for 2008. The proposed tariff includes a surcharge of \$0.000875 per kWh for governmental and agricultural members/customers. The proposed monthly maximums for governmental and agricultural member/customers are \$13.00 per service and \$39.00 per service for governmental and agricultural members/customers whose demand is 3,000 kW or more for three consecutive months. For the residential and non-residential members/customers, Duncan Valley is proposing a surcharge of \$0.004988 per kWh, a 570.06 percent increase from the existing Environmental Portfolio Standard ("EPS") surcharge of \$0.000875. The proposed monthly maximum per service for residential members/customers is \$1.05. Duncan Valley is proposing a \$39.00 per service monthly maximum for non-residential members/customers. For

non-residential members/customers whose demand is 3,000 kW or more for three consecutive months, the proposed monthly maximum is \$117.00 per service. The proposed monthly maximums ("caps") for Duncan Valley's proposed tariff, compared to the existing EPS maximums, are:

Customer Class/Category	Existing EPS Maximums/Caps	Proposed REST Maximums/Caps	Difference(\$)	Increase (%)
Residential	\$ 0.35	\$ 1.05	\$ 0.70	300%
Governmental & Agricultural	\$ 13.00	\$ 13.00	ing graph - the state of	-
Governmental & Agricultural >3MW	\$ 39.00	\$ 39.00	-	
Commercial & Industrial	\$ 13.00	\$ 39.00	\$ 26.00	300%
Commercial & Industrial >3MW	\$ 39.00	\$ 117.00	\$ 78.00	300%

The following table provides examples of sample Duncan Valley customers and the impact customers can expect to see.

Monthly Bill Impact

		1		
Sample Customers	Average kWh	Current EPS	Proposed REST	Difference
Gas & Convenience Store	6,365	\$5.57	\$31.75	\$26.18
Radio Station	21,400	\$3.00	\$39.00	\$26.00
Residential (Avg all				
Residential)	705	\$0.35	\$1.05	\$0.70
Residential Stick Built Home	1,360	\$0.35	\$1.05	\$0.70
Residential Apartment (low				
income)	245	\$0.21	\$1.05	\$0.84

Duncan Valley has calculated that its RES Tariff will collect the following funds, by customer category:

RES Tariff Funding from Proposed Surcharge

	Total \$	Average \$ per Bill	% Reaching Cap
Single Phase (Residential)	\$18,026.55	\$0.93	80.9%
Single Phase (Commercial)	\$8,785.94	\$7.98	1.0%
Single Phase (Government, Agricultural)	\$379.27	\$0.95	9.3%
Single Phase Demand (Commercial)	\$6.100.88	\$33.34	43.2%
Single Phase Demand (Government, Agricultural)	\$153.12	\$2.94	0.0%
Three Phase (Commercial)	\$1,006.39	\$5.32	0.0%
Three Phase (Government, Agricultural)	\$376.47	\$1.24	0.0%
Three Phase Demand (Commercial)	\$2,988.00	\$22.30	23.9%
Three Phase Demand (Government, Agricultural)	\$1,449.12	\$5.82	15.3%
Public Street Lighting (Government)	\$87.90	\$7.33	0.0%
Total	\$39,353.64		

Duncan Valley's RES Tariff will be sufficient to fund its annual budget for 2008.

In addition to the RES Tariff, Duncan Valley has also filed its Voluntary RES Contribution Program Tariff which it has filed in compliance with Decision No. 69728. The proposed program allows members/customers to purchase 50 kWh blocks of green energy for an additional \$2.00 per block. The proposed Voluntary RES Contribution Program Tariff will replace Duncan Valley's existing Voluntary EPS Contribution Program Tariff approved in Decision No. 67411.

In addition, Duncan Valley is proposing its Customer Self-Directed Tariff in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1809(A). Duncan Valley's proposed Customer Self-Directed Tariff allows eligible non-residential members/customers with multiple meters that pay more than \$25,000 annually in RES Surcharge funds to receive funds from the Cooperative to install Distributed Renewable Energy Resources.

Budget

According to Duncan Valley, the RES funding from the RES surcharge is estimated to be a total of \$39,353. The AEPCO Amended and Restated EPS/REST Plan approved in Decision No. 69728 had a total surcharge budget of \$2,636,436. Duncan Valley's \$39,353 fund plus the remaining three cooperatives' funds (Graham County, Mohave, and Trico) come to a total of \$1,657,953. There is a difference of \$978,483 between the proposed total AEPCO fund amount and the AEPCO surcharge fund amount that was approved in Decision No. 69728. According to AEPCO, the current carry-over EPS surcharge fund balance is estimated to be \$1,900,000. The current EPS surcharge fund balance of \$1,900,000 will assist the Cooperatives in meeting the AEPCO approved surcharge budget of \$2,636,436.

Fair Value Determination

Staff has analyzed Duncan Valley's application in terms of whether there are fair value implications. In Decision No. 67433, issued on December 3, 2004, the Commission determined the fair value of Duncan Valley's property to be \$2,972,556. According to Duncan Valley, as of December 31, 2006, per audited financial information, the value of Duncan Valley's plant is \$6,994,917. Staff considered both of these values for purposes of this analysis. The proposed tariff would have no impact on the Company's revenue, fair value rate base, or rate of return. Because plant developed pursuant to the REST programs is not added to the rate base, there will be no corresponding effect on Duncan Valley's ultimate revenue or rate of return.

Recommendations

Staff has reviewed Duncan Valley's proposed tariffs and finds that they are consistent with A.A.C. R14-2-1808, R14-2-1809(A), and Appendix A: Sample Tariff of the Renewable Energy Standard and Tariff Rules. Staff recommends the following:

1. Approval of Duncan Valley's RES Tariff;

- 2. Approval of Duncan Valley's Voluntary RES Contribution Program Tariff;
- 3. Approval of Duncan Valley's Customer Self-Directed Tariff;
- 4. A Commission Order that the REST Rules, A.A.C. R14-2-1801 through R14-2-1815, supersede the EPS Rules and any other reporting requirements related to renewable energy resources;
- 5. A Commission Order that the RES Tariff supersedes the EPS surcharge and upon Commission approval of the RES Tariff, Duncan Valley shall no longer be required to charge customers the current EPS surcharge and;
- 6. A Commission Order that all monies collected under the EPS Surcharge for the current EPS program be transferred to the REST Program.
- 7. A Commission Order that requires Duncan Valley to file with Docket Control, as a compliance matter in this case, tariff pages consistent with the terms of the Commission's Decision within 15 days from the effective date of the Decision.

Ernest G. Johnson

Director

Utilities Division

EGJ:CLA:lhm\CH

ORIGINATOR: Candrea Allen

1	BEFORE THE ARIZONA CORPORATION COMMISSION
2 3 4 5 6	MIKE GLEASON Chairman WILLIAM A. MUNDELL Commissioner JEFF HATCH-MILLER Commissioner KRISTIN K. MAYES Commissioner GARY PIERCE Commissioner
7 8 9 10 11	IN THE MATTER OF THE APPLICATION OF DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. FOR APPROVAL OF RENEWABLE ENERGY STANDARD TARIFFS DOCKET NO. E-01703A-07-0579 DECISION NO. ORDER
12 13 14 15	Open Meeting February 12 and 13, 2008 Phoenix, Arizona BY THE COMMISSION:
16 17 18	FINDINGS OF FACT 1. Duncan Valley Electric Cooperative, Inc. ("Duncan Valley" or "Company") is certificated to provide electricity as a public service corporation in the State of Arizona.
19 20 21	2. On July 30, 2007, the Arizona Corporation Commission ("Commission") issued Decision No. 69728 which approved the Arizona Electric Power Cooperative, Inc. ("AEPCO") Amended and Restated EPS/REST Plan ("Restated Plan"), filed on behalf of four of its Arizona
22 23 24	member distribution cooperatives. The four distribution cooperatives are Duncan Valley Electric Cooperative, Inc. ("Duncan Valley"), Graham County Electric Cooperative, Inc. ("Graham County"), Mohave Electric Cooperative, Inc. ("Mohave"), and Trico Electric Cooperative, Inc. ("Trico"), Or October 5, 2007, Develop Valley Cl. Live 166
25 26 27 28	("Trico"). On October 5, 2007, Duncan Valley filed its tariffs pursuant to Decision No. 69728 and the Renewable Energy Standard and Tariff ("REST") Rules. 3. Duncan Valley is submitting its tariffs associated with the Restated Plan. Duncan Valley is also submitting its proposed budget of \$39,353 for its portion of the Restated Plan.

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Tariffs

4. Staff has reviewed Duncan Valley's proposed RES Tariff which Duncan Valley filed in compliance with Decision No. 69728, issued July 30, 2007. Duncan Valley's proposed RES Tariff sets forth the surcharge rates and monthly maximums to be collected to fund its annual The proposed tariff includes a surcharge of \$0.000875 per kWh for budget for 2008. governmental and agricultural members/customers. The proposed monthly maximums for governmental and agricultural member/customers are \$13.00 per service and \$39.00 per service for governmental and agricultural members/customers whose demand is 3,000 kW or more for three consecutive months. For the residential and non-residential members/customers, Duncan Valley is proposing a surcharge of \$0.004988 per kWh, a 570.06 percent increase from the existing Environmental Portfolio Standard ("EPS") surcharge of \$0.000875. The proposed monthly maximum per service for residential members/customers is \$1.05. Duncan Valley is proposing a \$39.00 per service monthly maximum for non-residential members/customers. For non-residential members/customers whose demand is 3,000 kW or more for three consecutive months, the proposed monthly maximum is \$117.00 per service. The proposed monthly maximums ("caps") for Duncan Valley's proposed tariff, compared to the existing EPS maximums, are:

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Commercial & Industrial	\$ 13.00	\$ 39.00	\$ 26.00	300%
Commercial & Industrial >3MW	\$ 39.00	\$ 117.00	\$ 78.00	300%

5. The following table provides examples of sample Duncan Valley customers and the impact customers can expect to see.

Decision No.	

Monthly Bill Impact

Sample Customers	Average kWh	Current EPS	Proposed REST	Difference
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Home	1,360	\$0.35	\$1.05	\$0.70
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income)	245	\$0.21	\$1.05	\$0.84

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Public Street Lighting (Government)	\$87.90	\$7.33	0.0%
Total	\$39,353.64		

- 7. Duncan Valley believes that the surcharge rates and the monthly maximums proposed in Duncan Valley's RES Tariff will be sufficient to fund its annual budget for 2008.
- 8. In addition to the RES Tariff, Duncan Valley has also filed its Voluntary RES Contribution Program Tariff which it has filed in compliance with Decision No. 69728. The proposed program allows members/customers to purchase 50 kWh blocks of green energy for an additional \$2.00 per block. The proposed Voluntary RES Contribution Program Tariff will replace Duncan Valley's existing Voluntary EPS Contribution Program Tariff approved in Decision No. 67411.

Decision No.

9. In addition, Duncan Valley is proposing its Customer Self-Directed Tariff in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1809(A). Duncan Valley's proposed Customer Self-Directed Tariff allows eligible non-residential members/customers with multiple meters that pay more than \$25,000 annually in RES Surcharge funds to receive funds from the Cooperative to install Distributed Renewable Energy Resources.

Budget

10. According to Duncan Valley, the RES funding from the RES surcharge is estimated to be a total of \$39,353. The AEPCO Amended and Restated EPS/REST Plan approved in Decision No. 69728 had a total surcharge budget of \$2,636,436. Duncan Valley's \$39,353 fund plus the remaining three cooperatives' funds (Graham County, Mohave, and Trico) come to a total of \$1,657,953. There is a difference of \$978,483 between the proposed total AEPCO fund amount and the AEPCO surcharge fund amount that was approved in Decision No. 69728. According to AEPCO, the current carry-over EPS surcharge fund balance is estimated to be \$1,900,000. The current EPS surcharge fund balance of \$1,900,000 will assist the Cooperatives in meeting the AEPCO approved surcharge budget of \$2,636,436.

Fair Value Determination

11. Staff has analyzed Duncan Valley's application in terms of whether there are fair value implications. In Decision No. 67433, issued on December 3, 2004, the Commission determined the fair value of Duncan Valley's property to be \$2,972,556. According to Duncan Valley, as of December 31, 2006, per audited financial information, the value of Duncan Valley's plant is \$6,994,917. Staff considered both of these values for purposes of this analysis. The proposed tariff would have no impact on the company's revenue, fair value rate base, or rate of return. Because plant developed pursuant to the REST programs is not added to the rate base, there will be no corresponding effect on Duncan Valley's ultimate revenue or rate of return.

Recommendations

12. Staff has reviewed Duncan Valley's proposed tariffs and finds that they are consistent with A.A.C. R14-2-1808, R14-2-1809(A), and Appendix A: Sample Tariff of the Renewable Energy Standard and Tariff Rules. Staff recommends the following:

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Decision No.

1 Approval of Duncan Valley's RES Tariff: a. 2 b. Approval of Duncan Valley's Voluntary RES Contribution Program Tariff; 3 Approval of Duncan Valley's Customer Self-Directed Tariff: c. 4 A Commission Order that the REST Rules, A.A.C. R14-2-1801 through R14-2d. 5 1815, supersede the EPS Rules and any other reporting requirements related to renewable energy resources: 6 A Commission Order that the RES Tariff supersedes the EPS surcharge and upon e. 7 Commission approval of the RES Tariff, Duncan Valley shall no longer be required to charge customers the current EPS surcharge and; 8 9 f. A Commission Order that all monies collected under the EPS Surcharge for the current EPS program is transferred to the REST Program. 10 A Commission Order that requires Duncan Valley to file with Docket Control, as a g. 11 compliance matter in this case, tariff pages consistent with the terms of the Commission's Decision within 15 days from the effective date of the Decision. 12 13 **CONCLUSIONS OF LAW** 14 1. Duncan Valley Electric Cooperative, Inc. is an Arizona public service corporation 15 within the meaning of Article XV, Section 2, of the Arizona Constitution. 16 2. The Commission has jurisdiction over Duncan Valley Electric Cooperative, Inc. 17 and over the subject matter of the Application. 18 The Commission, having reviewed the application and Staff's Memorandum dated 3. 19 January 25, 2008, concludes that it is in the public interest to approve the Duncan Valley RES 20 Tariff, Voluntary RES Contribution Program Tariff, and the Customer Self-Directed Tariff as 21 specified in this order. 22 **ORDER** 23 IT IS THEREFORE ORDERED that the Duncan Valley Electric Cooperative, Inc. RES Tariff, Voluntary RES Contribution Program Tariff, and the Customer Self-Directed Tariff are 24 25 hereby approved as discussed herein. 26 IT IS FURTHER ORDERED that the REST Rules, A.A.C. R14-2-1801 through R14-2-1815, supersede the EPS Rules and any other reporting requirements related to renewable energy 27 28 resources.

IT IS FURTHER ORDERED that the RES Tariff supersedes the EPS surcharge and upon Commission approval of the RES Tariff, Duncan Valley shall no longer be required to charge customers the current EPS surcharge. IT IS FURTHER ORDERED that all monies collected under the EPS Surcharge for the current EPS program be transferred to the REST Program. Decision No.

1	IT IS FURTHER ORDER	ED that Duncan Valley shall file with Docket Control, as a
2	compliance matter in this case,	tariff pages consistent with the terms of the Commission's
3	Decision within 15 days from the e	ffective date of the Decision.
4	IT IS FURTHER ORDERE	D that this Order shall become effective immediately.
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6	BY THE ORDER OF T	THE ARIZONA CORPORATION COMMISSION
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9	CHAIRMAN	COMMISSIONER
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12	COMMISSIONER	COMMISSIONER COMMISSIONER
13		IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
		Executive Director of the Arizona Corporation Commission,
14		have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of
15		Phoenix, this, 2008.
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18		DEAN S. MILLER
19		Interim Executive Director
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1	SERVICE LIST FOR: Duncan Valley Electric Cooperative	, Inc.
2	DOCKET NO. E-01703A-07-0579	
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	Mr. John Wallace Grand Canyon State Flectric Cooperative Association. Inc.	
4	Grand Canyon State Electric Cooperative Association, Inc. 120 North 44 th Street, Suite 100	
5	Phoenix, Arizona 85034	
6	Mr. Christanhan C. Kamanlari	
	Mr. Christopher C. Kempley Chief Counsel, Legal Division	
7	Arizona Corporation Commission	
8	1200 West Washington Street	
9	Phoenix, Arizona 85007	
	Mr. Ernest G. Johnson	
10	Director, Utilities Division	
11	Arizona Corporation Commission 1200 West Washington Street	
12	Phoenix, Arizona 85007	
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